

AGANANG LOCAL MUNICIPALITY



DRAFT BUDGET 2013/14 MTREF

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Abbreviations and Acronyms

SC Budget Steering Committee

CFO	Chief Financial Officer
CPI	Consumer Price Index
DoR	ADivision of Revenue Act
EE	Employment Equity
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
IDP	Integrated Development Strategy
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
LED	Local Economic Development
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
PTIS	Public Transport Infrastructure System
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprise

Part 1 – Draft Budget

Attached

1.1 Council Resolutions Attached

On the 27 March 2013, the Council of Aganang Local Municipality met at Rapitsi Secondary School to consider the draft budget of the municipality for the financial year 2013/14. The council approved and adopted the following resolutions:

The council of Aganang Local Municipality, acting in terms of section 21 of the Municipal Finance Management Act (Act 56 of 2003) approves and adopts:

- 1 The Draft budget of the municipality for the financial year 2013/14 and the multi- year and single- year capital appropriations as set out in the following tables:
 - 1.1 Budgeted Financial Performance (revenue and expenditure by standard classification)
 - 1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote)
 - 1.3 Budgeted Financial Performance (revenue by source and expenditure by type)
 - 1.4 Multi -year and single year capital appropriations by municipal vote and standard vote and standard classification
- 2 The financial position, cash flow budget , cash backed reserve/ accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - 2.1 budgeted Financial Position
 - 2.2 budgeted cash flows
 - 2.3 cash backed reserves and accumulated surplus reconciliation
 - 2.4 Asset Management
 - 2.5 Basic Service Delivery measurement

1.2 Executive Summary

The application of sound financial management principles for the compilation of the council's financial plan is essential and critical to ensure that the municipality is shifting from the current financial situation to a financially sound and viable so that the municipal functions can be extended to include other functions such as waste management and that services that are provided are sustainable.

The municipality's service delivery priorities were reviewed as part of this year's planning and budget process. A critical and more robust approach was followed to ensure that high priority programmes and projects are funded as noncore and nice to have items were sifted. Operational programmes were critically analysed and in some instance control measures were introduced to monitor the expenditure on such programmes or votes, departments made proposal for the drafting of the tabled budget and some of their proposal were reduced due to financial constraints and the following serves as an example- Employee assistance programme, Subsistence and travelling allowance , Catering , Motor Vehicle Expenses

The compilation of the draft 2013/14 MTREF was guided by the National Treasury's MFMA circular No. 59

The main challenges experienced during the compilation of the draft 2013/14 MTREF can be summarised as follows:

- The municipality 's reliance on grants (Grants Dependency Syndrome)
- Lack or no revenue base
- Non payment of property rates by government departments
- Wage increase for municipal staff that push the operating expenditure to be more than capital expenditure
- Lack of economic activities within the boundaries of the municipality
- No land for development as the land is controlled by the traditional authorities

The following budget principles and guidelines directly informed the compilation of the draft 2013/14 MTREF:

- The 2012/13 adjustment budget
- Rates increases should be affordable and should generally not exceed inflation as measured by the CPI
- The municipality will fund projects which are within the parameters of the functions as unfunded mandates are the thing of the past

In view of the above mentioned, the following table is a consolidated overview of the proposed draft 2013/14 Medium-Term Revenue and Expenditure Frame work:

Table 1 Consolidated Overview of the draft 2013/14 MTREF

Description	Adjustment Budget 2012/13 R	Budget 2013/14 R	Budget 2014/15 R	Budget 2015/16 R
Total Operating Expenditure	78,399,152	86,397,524.63	98,383,391.44	106,960,273.52
Total Capital Expenditure	56,989,801	45,497,924.32	47,600,929.96	67,418,763.95
Total Revenue	135,388,953	131,895,448.95	145,984,321.40	174,379,037.47
Depreciation		13,663,000.00	15,029,300.00	16,532,230.00

Revenue has dropped by 2.6% or R 3 493 504 from adjusted due to approval of roll overs from previous financial year for the 2013/14 financial year when compared to the 2012/13 Adjustment budget. For the two outer years, revenue will increase by 10.68% or R14, 088,872.45 and 19.45% R28, 394,716.07 respectively

Total operating expenditure for the 2013/14 financial year has been budgeted at R 86 397 525 and translate into a budgeted deficit of R 13.6 million as a result of a non cash item. When compared to the 2012/13 adjustment budget, operational expenditure has grown by 10.2% in the 2013/14 budget and by 13.9% and 8.72% for each of the respective outer years of the MTREF. The operating deficit for the two outer years steadily increases to R 15 million and R 16.5 million. These budgeted deficits are as a result of budgeting for depreciation which in its nature is not cash item, as there is no actual outflow of cash from the municipality.

The capital budget of R 45 497 924 for 2013/14 is 11.5% less when compared to the 2012/13 adjustment budget due to adjusted roll overs. The capital programme for the outer two years are appropriated as follows R 47 600 930 and R 67 418 764 for 2014/15 and 2015/16 respectively. The capital programme for the MTREF will be funded from the government grants specifically the MIG and Equitable shares as the municipality is struggling financially which automatically rules out the possibility of borrowings. The capital budget for the 2013/14 financial year compared to the 2012/13 adjustment budget has decreased by R11,491,876.68

1.3 Operating Revenue Framework

Aganang Municipality rural as it is find it difficult to penetrate the revenue streams that will enable the municipality to move from grants dependency to be a financially viable municipality. The municipality is striving to provide its citizens with quality services and those services to remain sustainable we need to generate the required revenue. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding.

The introduction of the Municipal Property Rates Act was introduced as a relief to municipalities like Aganang that do not have revenue base but it turned out that the approach of the act was a one size fits all which dynamics of municipalities differ as in our instance the municipality does not own the land, which makes it difficult to levy rates on the residents. The government department are billed on monthly basis but nothing is forthcoming as there are arguments about the issue of land ownership and other issues. Even though the municipality has other revenue streams, it is still failing to implement due to the land ownership like development of township.

Table 2 Summary of revenue classified by main revenue source

Description	2009/10 Audited Outcome	2010/11 Audited Outcome	2011/12 Audited Outcome	Current Year 2012/13			2013/14 MTREF		
				Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year 2014/15	Budget Year 2015/16
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Property Rates	6,385	4,958	7,445	300	300	300	315	331	347
Rental of Facilities and Equipment	285	321	318	454	454	454	476	500	525
Interest earned- external investment	828	1,100	1,321	1,358	1,358	1,358	1,426	1,498	1,573
Interest earned- outstanding debtors			1,651	11	11	11	12	12	13
Licences, Fines and permits				2,320	2,420	2,420	2,720	2,856	2,999
Transfers recognised- operational	45,849	56,980	60,977	67,523	67,644	67,644	74,060	85,429	93,358
Other Revenue	596	4,625	7,131	3,901	6,581	6,581	7,388	7,758	8,146
Total Revenue excluding capital transfers and	53,942	67,985	78,843	75,867	78,768	78,768	86,398	98,383	106,960

contributions									
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Table 3 Percentage growth in revenue by revenue Source

Description	Current Year 2012/13		2013/14 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2013/14	%	Budget Year +1 2014/15	%	Budget Year +2 2015/16	%
Revenue by Source	R		R		R		R	
Property Rates	300	0%	315	0%	331	0%	347	0%
Rental of facilities and Equipment	454	1%	476	1%	500	1%	525	0%
Interest Earned- External Investment	1,358	2%	1,426	2%	1,498	2%	1,573	1%
Interest Earned – Outstanding Debtors	11	0%	12	0%	12	0%	13	0%
Licenses and Permits	2,420	3%	2,720	3%	2,856	3%	2,999	3%
Transfers Recognised - Operational	67,644	86%	74,060	86%	85,429	87%	93,358	87%
Other Revenue	6,581	8%	7,388	9%	7,758	8%	8,146	8%
Total Revenue (Excluding Capital Transfers	78,768	100%	86,398	100%	98,383	100%	106,960	100%

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

In this current year of 2012/13 operating grants and transfers totalled to R67 million. This increases to R74 million, 85 million and 93 million in the respective financial years of the MTREF. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grants Receipts

GRANTS AND SUBSIDIES	R'000	R'000	R'000
	79,100	88,163	96,275
Equitable share	74,060	85,429	93,358
MSIG	890	934	967
LGFMG	1,650	1,800	1,950

Capricorn District Municipality	2,000	0	0
Expanded Public works programme	500	0	0

The municipality has kept the available rates affordable for those revenue generating sources below the inflation target. The municipality is not collecting revenue in terms of services such as refuse removal, water, electricity as there are no activities relating to such services. In terms of electricity Eskom is the responsible entity that is providing and receiving revenue, the Capricorn district municipality is responsible for water as it is the authority and the municipality is the provider.

In terms of refuse removal and other services the municipality has financial constraints that made it impossible to finance the necessary requirements to operate certain activities but in a process of providing refuse removal which in the draft budget, an amount has been provided to fence dumping site.

The municipality is unable to collect property rates due to the non-payment of this source by provincial and national government and also experiencing the same challenges on households. The issue of rural municipalities that don't own a piece of land needs to be given priority by those in positions that privileged them to take such favourable decision as it is causing challenges for the rural municipalities even in terms of development the process has some bottlenecks.

1.4 Operating Expenditure Framework

The expenditure framework for the 2013/14 draft budget and MTREF is informed by the following:

- Funding of the budget over the medium term as informed by Section 18 and 19 of the MFMA
- Balanced budget constraint (operating expenditure should not exceed operating revenue, the only exception will be in terms of non cash items such as depreciation) unless there are existing uncommitted cash-backed reserves to fund any deficit.
- The capital programme is aligned to the backlog eradication plan as outlined in the IDP
- Strict adherence to the principle of no clear specification no budget allocation.

The following table is a high level summary of the 2013/14 draft budget and MTREF (Classified per main type of operating expenditure)

Table 5 Summary of operating expenditure by standard classification item

Description	2009/10	2010/11	2011/12	Current Year 2012/13			2012/13 MTREF		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2013/14	Budget Year + 1 2014/15	Budget year + 2 2015/16
Employee Related Costs	17,598	27,686	27,473	40,037	39,219	39,219	43,047	46,490	50,210
Remuneration of Councillors	6,441	6,739	8,598	9,047	10,050	10,050	8,114	8,763	9,464
Depreciation and Asset	4,309	6,616	7,144	5,500	5,500	5,500	13,663	15,029	16,532

Impairment									
Contracted services	1,631	1,426	2,097	2,787	2,852	2,852	2,900	3,190	3,509
Other Operating Expenditure	30,727	18,830	21,240	23,996	24,489	24,489	32,337	39,940	43,778
Total Expenditure	60,706	61,297	66,551	81,367	82,110	82,110	100,061	113,413	123,492

The budgeted allocation for employee related costs for the 2013/14 financial year totals R51,160,682.63 which equals 59% of the operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 8% for the 2013/14 financial year. Salary increase for outer two years of the MTREF were increased by 6.95% and 6.5% for both municipal employees, councillor's and section 57 employees. As part of the Municipality's cost cutting and cash management strategy vacancies have been significantly rationalised downwards. The Organisational structure and Budget have been increased to include additional six (06) new positions. As part of the planning assumptions and intervention all positions were prioritised

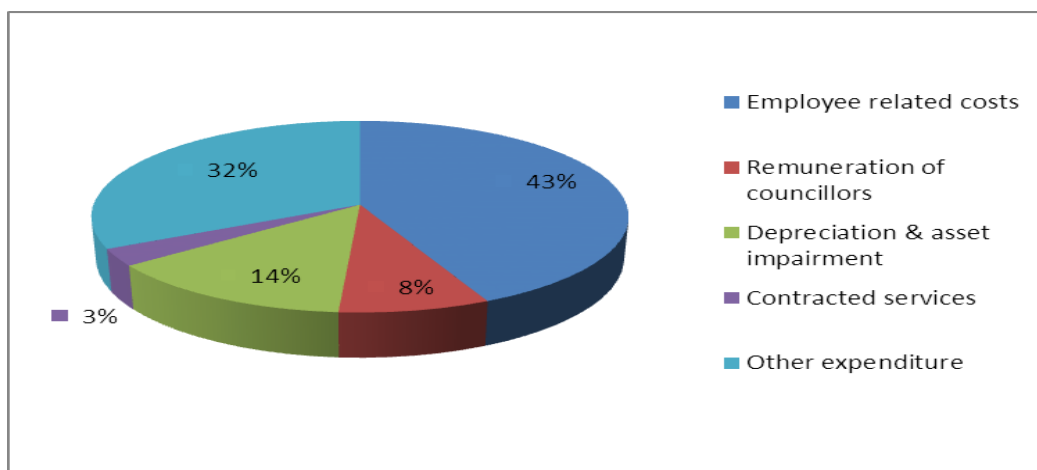
The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the remuneration of Public Office Bearers Act, 1998 (Act no 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

Provision for depreciation and asset impairment has been informed by the municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R 13 million for the 2013/14 financial and equates to 14% of the total operating expenditure.

Contracted services have been identified as a cost saving area for the municipality. As part of the compilation of the draft 2012/13 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2013/14 financial year this group of expenditure totals R2 899 956 and has escalated by 4.05%. For the two outer years growth has been limited to 10% for both years.

Other expenditure comprises various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. During deliberations by user departments motivations were given not to reduce some of the line items due to their importance but the financial constraints faced by the municipality due to increase in employee related cost left the budget steering committee with no option but to reduce some of the ridiculously unaffordable line items and non essentials nice to have line items. Further details relating to contracted services can be referred in table SA1.

The following table gives a breakdown of the main expenditure categories for the year 2012/13 financial year



Other Expenditure Categories

1.4.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the municipality's current available infrastructure, the 2013/14 budget and MTREF provide for extensive growth in the area of asset maintenance. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as construction of infrastructure. In relation to the total operating expenditure, repairs and maintenance comprises of 7% of assets value of PPE reported in 2011/12 AFS instead of 8% as proposed by NT and will be re-looked at during the final budget.

The below table provides a breakdown of the repairs and maintenance in relation to assets class

Table 6 Repairs and Maintenance by Assets Class

Description	Current Year 2011/12			2013/14 MTREF		
	Original Budget 2012/13	Adjusted Budget 2012/13	Full year Forecast 2012/13	Budget year 2013/14	Budget year 2014/15	Budget year 2015/16
Repairs & Maintenance by assets class						
Infrastructure Road	100	100	100	300	330	363
Infrastructure Water	2,000	2,295	2,295	2,000	2,200	2,420
Other Assets	337	670	670	1490	1639	1803
Plant, tools and Equipment	500	1,525	1,525	2,500	2,750	3,025

For the 2012/13 financial year, R2 000 000 of total repairs and maintenance will be spent on infrastructure assets, followed by roads maintenance at R300 000 . The municipality as the appointed Water Service Provider is responsible for the maintenance of the water infrastructure, of which is funded by Capricorn District Municipality as the Water Service Provider, although there are discussions with District Municipality which might withdraw Water Service as they are the providers, The municipality just made an allocation of R2 000 000 for the 2013/14 F/Y and nothing on the two outer years due to the discussions. The other assets include assets such as plant tools and equipment, which has been allocated R2 500 000 and Other Assets R1 490 000

1.5.2 Free Basic Services

The free basic services assists household that are indigents or face circumstances that limit their ability to pay for services. The free basic alternative energy is assisting households that are part without electricity as a result of them been post connection village extension as the municipality has electrified all villages in the municipality and now concentrating on electrifying extension. For the current financial year, the municipality is not allocated INEC(Intergrated National Electrification Grant) , the allocation is only made to Eskom on behalf of Aganang amounting to R for the municipality.

To receive these free services the households are required to register in terms of the municipality's indigent policy to be able to benefit from free basic electricity.

The municipality also offer free water to villages even though there are challenges relating to the source of water, the highest percentage of the municipality is served by unreliable underground water which makes it difficult for the Water Service Authority to install water meters to be able to charge or bill for water service and the other issue is the RDP standard for water provision with taps located 200m from the households, how do you then meter these household.

1.5 Capital Expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 7 2013/14 Medium –term capital budget per vote

Description	Current Year 2012/13		2013/14 Medium Term Revenue & Expenditure Framework					
	Adjusted	%	Budget Year 2013/14	%	Budget Year +1 2014/15	%	Budget Year + 2 2015/16	%
Governance & Administration	3,084.00	5%	3,367	7%	3,675	8%	4,013	6%
Building	3,698.00	6%	300	1%	8,700	18%	0	0%
Plant,Tools & Equipment	3,009.00	5%	5,300	12%	4,480	9%	9,300	14%
Planning & Economic Development	3,100.00	5%	4,670	10%	2,347	5%	6,977	10%
Child Care	2,700.00	5%	2,850	6%	3,135	7%	6,583	10%
Roads	35,924.00	63%	24,170	53%	20,751	44%	34,081	51%
Electrification and Public safety	2,972.00	5%	840	2%	1,512	3%	1,663	2%
Sports Facilities	2,500.00	4%	4,000	9%	3,000	6%	4,800	7%

Total Capital Budget	56987	100%	45497	100%	47,600	100%	67,417	100%
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The total budget for the municipality's capital or infrastructure development amount to R45, 497,924.32 which is 34% of the total budget of the municipality. For the 2014/15 an amount of R21 million has been appropriated for the roads and transport infrastructure which is the highest budget relating to infrastructure development.

Other assets represent 475 or R21, 327,074 of the total capital budget and in the outer two years this amount to R26, 849,930 and R33, 337,483 respectively for each of the financial years.

In terms of funding of infrastructure or capital development the municipality find it difficult to augment the conditional grants that are provided for by National Government due to lack of revenue base or streams. Other than the MIG the municipality rely mostly on the equitable shares to cover for the other part of the capital development.

1.7 Draft Budget Tables are provided in version 2.5 template as well as supporting documents

